

REPLACEMENT RESERVE ACCOUNTS

7 CFR 3560.306

**3560 Handbook 2, Chapter 4 – Section 3
Current as of 8/19/2009**

Purpose of Reserves

- Used to meet major capital expense needs of project such as roof replacement, window replacement, major exterior work, replacement of A/C and heating systems, etc.
- Appliances and Flooring and carpeting UNLESS shown in the annual operating budget and beyond ROUTINE.
- Borrowers operating on for-profit or limited profit basis – 25% of interest earned during the prior year. Documentation required.

Reserve Account Requirements

- Funded monthly from project operating funds.
- Borrower's loan agreement or resolution stipulates the monthly/annual/fully funded requirements. Loan Agreement or Resolution can be amended to increase fully funded level.
- Effective July 26, 1994, held in supervised account that requires Agency countersignature on all withdrawals.

Reserve Account Requirements (Cont'd)

- Deposit Agreement (Form RD 402-1) signed by borrower rep, financial institution and Agency rep required.
**SIGNATURE CARD SIGNED BY
BORROWER REPRESENTATIVE
AND AGENCY REPRESENTATIVE
REQUIRED FOR ALL
APPLICABLE RESERVE
ACCOUNTS.**

Planned Use of Reserves

- Borrower request to Agency using RD Form 3560-12, “Request for Authorization to Withdraw Reserve Funds” BEFORE needed.
- Anticipate and plan at least annually as part of budget submission.
- Post approval ONLY for Emergency – imminent and serious threat to health, safety or physical security of project.

RD Review & Approval Process

- If replacement in annual capital budget and not substantial construction (roof, concrete, electrical systems, structural changes), agency review to be completed within 5 business days.
- If request is for replacement that is not an emergency and was not part of the annual capital budget, agency has 10 business days to complete review.
- After project completed, request for payment (withdrawal of funds) requires submission of invoice (copy) and two-party check made payable to vendor to RD.

Bid Requirements

- \$3500 or more requires minimum of two bids. (NOTE: Form 3560-12 incorrectly states \$5000.)
- IOI between borrower or manager and bidder – the IOI entity must submit bid directly to Agency Servicing Office prior to requesting further bids.

Moderate Levels of Construction

- No changes to structure and cost less than \$100,000.
- Agency needs to review project documents, written bids, copy of proposed contract and contractor's payment request.

Large Construction

- Substantial change to structure and cost in excess of \$100,000.
- Design requirements of RD Inst. 1924-A & 1924-C to be followed.
- Work with agency servicing office for guidance and instructions.

Excess Reserve Funds

- Exceeds the total sum specified in loan agreement or resolution.
- Options:
- Transfer to operating for specific need & authorized purpose.
- Retain in reserve account and modify fully funded terms in Loan Agreement or Resolution.
- Apply as extra payment on RD loan.